# STATE OF UTAH INSURANCE DEPARTMENT

# REPORT OF EXAMINATION

# OF

# WORKERS COMPENSATION FUND

# OF

# MURRAY, UTAH

# AS OF

# DECEMBER 31, 2000

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April 25, 2002

Honorable Merwin U. Stewart, Commissioner
State of Utah Insurance Department
State Office Building, Room 3110
Salt Lake City, Utah 84114-6901

In accordance with your instructions and in compliance with Utah Code Annotated (U.C.A.) Title 31A, an examination of the financial condition and business affairs of

**WORKERS COMPENSATION FUND**
**of**
**Murray, Utah**

a nonprofit, tax exempt, quasi-public, property and casualty insurance company, hereinafter referred to as the Company, was conducted as of December 31, 2000.

## SCOPE OF EXAMINATION

### Period Covered by Examination

The Utah Insurance Department's ("Department") last financial examination of the Company was conducted as of December 31, 1997. The current examination covers the period from January 1, 1998, through December 31, 2000, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination. The Company's Utah domestic life insurance subsidiary, Univantage Insurance Company, was examined concurrently. Advantage Workers Compensation Insurance Company, an Indiana domestic property and casualty insurance company and wholly owned subsidiary of the Company, was not examined. The Indiana Insurance Department was notified that the Company was being examined as of December 31, 2000.

### Examination Procedure Employed

The examination included a general review and analysis of the Company's operations and a determination of its financial condition as of December 31, 2000. Material assets were valued and ownership verified. Liabilities were determined in accordance with laws, rules, and procedures prescribed by the State of Utah. The examination was conducted in accordance with generally accepted standards and procedures of regulatory authorities relating to such examinations. It included tests of the accounting records and a review of the Company's affairs and practices to the extent deemed necessary.

The Company retained the services of a certified public accounting firm to audit its financial records for the years under examination. The firm provided requested working papers prepared in connection with its audits. The use of the firm's working papers did not significantly affect the nature and extent of examination procedures performed. The firm's correspondence regarding pending or threatened litigation, claims, and assessments received from the Company's legal representatives was relied on. The firm specified that the representatives need not include any pending or threatened litigation, claim or assessment involving potential losses or gains whose expected effects on the Company's financial statements would be less than $500,000 unless the aggregate for all such individual amounts was more that $500,000.

The examiners relied on an analysis of indicated loss and loss adjustment reserves report prepared by the Company's outside actuarial consulting firm, Tillinghast – Towers Perrin. Tillinghast developed a range of reserves by selecting high and low ultimates by accident year based on the results of various commonly accepted actuarial methods. The Company's reported loss and loss adjustment reserves, net of reinsurance and other recoveries, of $453.5 million, which is at the high end of the indicated range of reserves that runs from $410.4 million to $461.2 million.

Examiners reviewed the actuarial report for reasonableness of the methodology employed and the conclusions reached. In addition, examiners tested the completeness of the records provided to the firm, and the accuracy of the underlying data used to establish reserve amounts.

A letter of representation certifying that management has disclosed all significant matters and records was obtained from management and has been included in the examination working papers.

**Status of Adverse Findings, Material Changes in the Financial Statements, and Other Significant Regulatory Information Disclosed in the Previous Examination**

The previous examination, as of December 31, 1997, increased the Company's reported surplus by approximately $49 million. The increase resulted primarily from a decrease of $56.7 million in loss and loss adjustment expense reserves and the establishment of $9.3 million in excess of statutory reserves over statement reserves. Loss and loss adjustment reserves were established in excess of the highest projections made by the consulting actuary. Loss and loss adjustment reserves reported at December 31, 2000, are within the consulting actuary's range of projections. An excess of statutory reserves over statement reserves was established because the total incurred liability for 1995 was less than 65 percent of earned premiums. Excess statutory reserves over statement reserves was not reported or required as of December 31, 2000.

Other items of significance or special interest noted in the prior examination report have been addressed by the Company or have received further comment in this report.

## HISTORY

### General

In 1917, the Utah State legislature adopted the Utah Workmen's Compensation Act, which required employers to provide workers' compensation insurance benefits. The employers were allowed to provide the benefits through self-insurance, private insurance, or insurance through the Utah State Insurance Fund, the Company's predecessor. The act established the Company as a division of Utah Administrative Services with the responsibilities of providing workers' compensation coverage to Utah domiciled employers at the least possible cost and to provide prompt, professional service for its policyholders and their injured employees.

Legislation in 1988 and 1990 authorized the Company to operate as a non-profit business enterprise and pursuant to U.C.A. § 31A-1-105, the Company was brought under regulation of the Department in 1993. U.C.A. § 31A-33-102 created the Company as a nonprofit, quasi-public corporation. On April 6, 1994, the Department issued a certificate of authority authorizing the Company to insure workers' compensation risks in the State of Utah.

The Company's articles of incorporation and by-laws were adopted on March 29, 1994, and April 7, 1994, respectively. Articles of amendment to the articles of incorporation were filed with and approved by the Department in July 1998, May 1999, and June 2000. The year 2000 amendment changed the Company's name from Workers Compensation Fund of Utah to Workers Compensation Fund. Article 1, Section 1.1 of the bylaws states that "The principal office of the Corporation shall be within the State of Utah and shall be located in Salt Lake City, Salt Lake County." The Company is not in compliance with this requirement. The Company's principal office is located in Murray, Utah.

**Capitalization**

The State of Utah Treasury appropriated $40,000 for the Company's original capitalization. The appropriation was repaid during the 1920's. As a mutual insurance company the Company is required to maintain minimum permanent surplus of $300,000 and risk-based capital as required by U.C.A. 31A-17-Part 6.

**Management**

Ultimate control of the Company resides with its board of directors. U.C.A. § 31A-33-106 establishes the number of directors at seven, consisting of the executive director of the Department of Administrative Services or designee; the chief executive officer of the Company; and five members appointed by the governor, with the advice and consent of the senate. Three of the appointed directors are required to be owners, officers or employees of policyholders, other than the state, that have been insured by the Company for at least one year before their appointment. Two of the directors are required to be appointed from the public in general. Board member appointment is in accordance with the public director selection provisions for mutual insurance companies under U.C.A. § 31A-5-409.

Each director's term of office is four years beginning July 1st of the year of appointment. The governor, at the time of appointment, is required to adjust the length of terms to ensure that the terms of the board members are staggered so that approximately half of the board is appointed every two years.

Directors serving as of December 31, 2000, follow:

| Name – Location | Term Expiration | Capacity | Principal Affiliation |
|---|---|---|---|
| Melvin Carl Green, Chair<br>Centerville, Utah | 2004 | Policyholder | Owner/Chairman<br>Creative Color |
| Mark Hayward Heugly, Vice Chair<br>Sandy, Utah | 2002 | Policyholder | Senior Vice President<br>ACS |
| Howard Eugene Dransfield<br>St. George, Utah | 2004 | Public | Retired Executive<br>Mobil Oil Corporation |
| August Glissmeyer, Jr.<br>Salt Lake City, Utah | 2002 | Policyholder | Retired Partner<br>Deloitte & Touche, LLP<br>Part-time Financial Accounting Consultant<br>Winder Dairy |
| Raylene Griffith Ireland<br>Lindon, Utah | Statutory | Office | Executive Director<br>Utah Department of Administrative Services |
| Robert Day Myrick<br>Salt Lake City, Utah | 2002 | Public | President and Chief Operating Officer<br>Morgan Stanley Dean Witter Bank |
| Lane Alma Summerhays<br>Salt Lake City, Utah | Statutory | Office | President, Chief Executive Officer<br>Workers Compensation Fund |

The Company's articles of incorporation provide for principal officers to consist of a president, a secretary, a chief financial officer, and such other officers as the by-laws may specify or the president may designate. Principal offices of the Company are to be held by at least three separate natural persons and the offices of the president and secretary may not be held by the same person. Officers elected by the board of directors and serving at the examination date follow:

| Officer | Office |
|---|---|
| Lane Alma Summerhays | President and Chief Executive Officer |
| Dennis Vaughn Lloyd | Secretary, Senior Vice President, and Chief Legal Counsel |
| Ray David Pickup | Chief Financial Officer, Senior Vice President, and Chief Administrative Officer |
| Thomas Edward Callanan | Senior Vice President and Chief Marketing Officer |
| Robert Harold Short | Senior Vice President and Chief Operations Officer |

The following directors constituted the membership of the Company's committees at the examination date:

| Executive Committee | Investment Committee | Marketing Committee |
|---|---|---|
| Melvin Carl Green, Chair | Mark Hayward Heugly, Chair | Howard Eugene Dransfield, Chair |
| Mark Hayward Heugly | Melvin Carl Green | August Glissmeyer, Jr. |
| Howard Eugene Dransfield | Robert Day Myrick | Melvin Carl Green |
| August Glissmeyer, Jr. | Lane Alma Summerhays | Mark Hayward Heugly |
| Robert Day Myrick | | Lane Alma Summerhays |
| Lane Alma Summerhays | | |

| Audit Committee | Compensation, Benefits and Human Resources Committee |
|---|---|
| August Glissmeyer, Jr., Chair | Robert Day Myrick, Chair |
| Howard Eugene Dransfield | Howard Eugene Dransfield |
| Raylene Griffith Ireland | Melvin Carl Green |
| Robert Day Myrick | Lane Alma Summerhays |

An Employment Agreement entered into with the Company's President and Chief Executive Officer ("CEO") with an effective date of September 1, 2000, was not reported to the Commissioner within 30 days of approval by the board of directors, as required by U.C.A. § 31A-5-416(3). Nor was the agreement acknowledged in annual statement general interrogatory 9(d). The agreement automatically terminates on June 30, 2006, unless employment terminates sooner pursuant to specific terms of the agreement. As partial compensation for services performed, the CEO is to be paid an annual base salary of not less than $235,000. In addition, the CEO is entitled to participate in all incentive compensation plans, employee benefits, practices, policies, and programs intended for participation by executive employees of the Company.

Early termination by the Company without cause or early termination by the CEO for good reason, as defined in the agreement, requires the Company to pay the CEO a calculated amount. The maximum amount to be paid is the CEO's accrued and unpaid base salary plus two and one-half times the base salary in effect as of the date of termination plus all vested, nonforfeitable amounts owing or accrued at the date of termination.

**Conflict of Interest Procedure**

In compliance with Article III(a)(15) of the Company's by-laws, procedures for disclosure of any material conflict of interest have been established. The procedures provide that each employee will receive a copy of the policy statement, review it annually, and disclose all situations, which may give rise to a conflict of interest. Additionally, directors, officers and key employees are requested to complete annual conflict of interest disclosure questionnaires.

A review of officers' and directors' questionnaires disclosed that two questionnaires were left blank other than the individual's name, signature and date. The questionnaire specifically states that "If a numbered item is not applicable, please do indicate in writing." Thequestionnaire requests that the individual identify the nature of any relationships the individual or members of his or her immediate family may have with specific entities. Relationship means financial, employment, consulting, or contractual agreements, arrangements, affiliations, or interests of any kind. Three directors and three officers listed various relationships.

**Corporate Records**

As also noted in the prior examination report, the Company did not maintain minutes of some board of directors' executive sessions. Some minutes that were maintained were not signed or initialed. Section 4.4 of the Company's by-laws designates the Company's secretary as the person responsible for keeping the minutes of the proceedings of the board of directors; however the secretary was excluded from the executive sessions of the board of directors. In addition, minutes of the Compensation, Benefits and Human Resources Committee have not been kept since its formation in May 1999. Annual statement general interrogatory 26 erroneously reported that the Company keeps a complete permanent record of the proceedings of its board of directors and all subordinate committees.

In general, maintained board of directors and committee minutes indicated that the board and its committees adequately approved and supported the Company's transactions and events. In accordance with U.C.A. § 31A-2-204(8), the Company promptly furnished a copy of the prior Department examination report to each member of its board.

**Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance**

In January 1998, the Company acquired a majority interest in Pinnacle Risk Management Services, a workers' compensation third party administrator and formed Advantage WorkComp Services, a workers' compensation products and services company. Although the transactions were reported in the Company's Form B filing dated May 1, 1998, the Commissioner was not notified immediately following the acquisition or formation of the subsidiaries as required by U.C.A. 31A-5-218(5)(a).

In August 1998, the Company acquired 100 percent of the outstanding stock of ManagedComp National Insurance Company, an Indiana domiciled property and casualty insurance company. Following the acquisition, the company's name was changed to Advantage Workers Compensation Insurance Company.

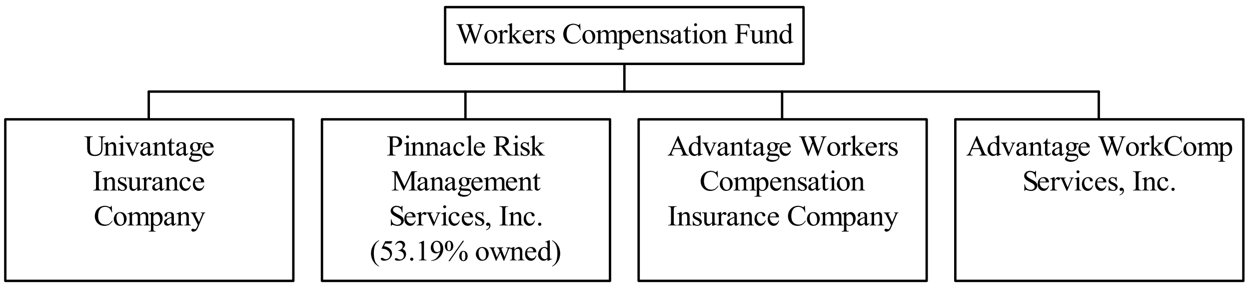
**Surplus Debentures**

No debentures were issued or retired during the examination period and none was outstanding as of December 31, 2000.

## AFFILIATED COMPANIES

The Company is the ultimate controlling member of an insurance holding company system. An organizational chart presenting the identities of and interrelationships between the Company and its affiliates on December 31, 2000, follows:

Insurance Holding Company System




Univantage Insurance Company is a Utah domiciled insurer acquired by the Company on January 8, 1996, for the purpose of expanding its insurance activities to health coverages. However, subsequent to the acquisition date, U.C.A. § 31A-33-103.5 was amended to limit the Company and its subsidiaries to offering only workers' compensation insurance coverage. The subsidiary's insurance operations were dormant and it had no insurance in force. Financial activity of the subsidiary consisted mainly of earnings on its invested assets.

As of the examination date, Advantage Workers Compensation Insurance Company, an Indiana domiciled property and casualty insurance company, was licensed to conduct insurance business in 41 states and the District of Columbia. During the year 2000, the company reported direct premiums written in Arizona, Colorado, Idaho, Nevada, New Mexico, and Texas.

Pinnacle Risk Management Services, Inc. ("Pinnacle") is a third-party administrator of workers' compensation claims. Subsequent to the examination date, the Company's board of directors ratified the purchase of a minority shareholder's Pinnacle common stock. The purchase increased the Company's ownership to 94.74 percent.

Advantage WorkComp Services, Inc. is a workers' compensation products and services company.

### Management Agreements, Service Contracts and Cost-sharing Arrangements

Effective June 15, 1998, the Company, Pinnacle, Univantage Insurance Company, and Advantage WorkComp Services, Inc. entered into an agreement for cooperative and joint use of personnel, property, equipment, and services. The Company agreed to provide its subsidiaries personnel, property, equipment, and services to enable the subsidiaries to conduct business and other corporate functions. Pinnacle agreed to provide personnel, property, equipment, and services to the Company to enable the Company to conduct its insurance business and other corporate functions. The agreement requires that the amount charged be fair, reasonable, equitable, and in accordance with the prevailing market rates.

Effective December 1, 1998, the Company entered into a Management/Services Agreement with Advantage Workers Compensation Insurance Company. The Company agreed to provide personnel, property, equipment, and services with respect to administration, accounting, legal, marketing, claims, loss control, computer systems, and fraud investigations, to enable Advantage Workers Compensation Insurance Company to conduct business and other corporate functions. The agreement requires that the amount charged be fair, reasonable, equitable, and in accordance with the prevailing market rates.

Effective May 16, 1999, the Company entered into a Three Party Claims Servicing Agreement with Pinnacle and Legion Insurance Company, a Pennsylvania domiciled insurance company. Pinnacle agreed to provide claims adjusting and administration services for Legion Insurance Company and the Company.

Effective January 1, 2000, the Company entered into a Claims Service Agreement with Pinnacle. The term of the agreement was one year, but the agreement remained in effect in 2001. An amendment dated February 12, 2002, extended the contract period. Pinnacle agreed to represent and act for the Company in matters pertaining to the liability of the Company for claims under the Workers' Compensation Act, or similar law, in the State of Utah.

Effective April 1, 2000, the Company entered into a Service Agreement with Advantage WorkComp Services, Inc. Advantage WorkComp Services, Inc agreed to provide consultative services, including workers' compensation risk analysis, loss prevention, and claims management, to the Company's subscribing employers.

The Company did not notify the Commissioner in writing of its intention to enter into the following transactions at least 30 days prior to entering into the transactions as required by U.C.A. § 31A-16-106(1)(b)(iv).

- A Claims Service Agreement with Pinnacle
- An amendment to extend the contract period of the Claims Service Agreement with Pinnacle
- A Three Party Claims Servicing Agreement with Pinnacle
- An amendment to the Three Party Claims Servicing Agreement with Pinnacle
- A Service Agreement with Advantage WorkComp Services, Inc.
- An amendment to the Management/Service Agreement with Advantage Workers Compensation Insurance Company.

## FIDELITY BOND AND OTHER INSURANCE

The amount of fidelity insurance coverage recommended by the National Association of Insurance Commissioners for an insurer of the Company's size is between $1,250,000 and $1,500,000. The Company had fidelity coverage with a single loss limit of $1,250,000 and a single loss deductible of $50,000.

The Company was a named insured under various policies providing property, automobile, flood, and earthquake coverage. In addition, the Company carried general liability coverage and specific coverage for security guard liability, directors and officers liability, and errors and omissions liability.

## PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

### Employee Retirement Plans

The Company is a voluntary participant in the State and School Contributory and Non-contributory Retirement Systems. The systems are administered by the State of Utah and are multi-employer cost sharing defined benefit plans. Eligible employees hired after July 1, 1986, are automatically members of the non-contributory system. Under the plans employees may retire at age 65 with four years of service or at any age with 30 years of service without an actuarial reduction.

Contributions to the retirement systems are required by statute. Covered employees in the contributory system are required to contribute 6 percent of their salary and the Company is required to contribute 9.19 percent of their salary. No employee contributions are allowed in the noncontributory system. The Company is required to contribute 13.68 percent of salary.

Employees participating in the non-contributory retirement plan are also eligible to participate in a 401(K), salary deferral program. The Company contributes 1.5 percent of the employee's gross salary to the salary deferral program and the employee may elect to contribute additional amounts.

### Supplemental Executive Retirement Agreement

A "Revised Supplemental Executive Retirement Agreement" entered into with the Company's President and Chief Executive Officer ("CEO"), effective September 1, 2000, was not reported to the Commissioner within 30 days of approval by the board of directors, as required by U.C.A. § 31A-5-416(3). Nor was the agreement acknowledged in annual statement general interrogatory 9(d). The unfunded, nonqualified plan provides benefits to the CEO after retirement or to his spouse if the CEO's death precedes his retirement. Benefits are contingent upon the CEO's employment with the Company. The benefit payable, on or after his 60th birthday, is a monthly life annuity equal to the lesser of $12,500 or 65 percent of his final average pay on termination of employment. Final average pay is defined as the average monthly base salary and bonus payments received over the 36 consecutive months of employment out of the last 60 for which such average is the highest, less $16,666.

The agreement also provides for an early retirement benefit after attaining age 55 with a reduction in benefits. A disability benefit allows the CEO to receive a lump sum amount equal to the present value of the benefit, if he becomes disabled, and a pre-retirement death benefit allows a surviving spouse to receive a lump sum amount equal to the present value of the benefit in the event of death before retirement. Provision was made in the financial statements for the Company's obligations under the plan.

### Bonuses and Other Incentive Awards

The Company utilized bonus and other incentive awards. The following schedule reflects the distribution between salaries and bonuses for the five highest paid officers of the Company.

| Paid Year | Salary | Bonus | Total | Salary | Bonus |
|---|---|---|---|---|---|
| 1997 | $ 642,503 | $ 229,250 | $ 871,753 | 73.70% | 26.30% |
| 1998 | 661,934 | 272,000 | 933,934 | 70.88% | 29.12% |
| 1999 | 715,990 | 247,307 | 963,297 | 74.33% | 25.67% |
| 2000 | 743,347 | 264,250 | 1,007,597 | 73.77% | 26.23% |

The bonus plan for the CEO was totally at the discretion of the executive committee of the board of directors. Bonus plans for the other executives are individually structured with performance achievements categorized as "threshold", "target" and "maximum". Each performance measure is weighted and has a dollar bonus amount for accomplishing the measure. Bonuses were approved and paid in the year following the period for which the performance was rated.

### Other Employee Benefits

The Company offered its employees a variety of medical and dental options. The Company shared in the cost of the coverage. The Company also provided workers' compensation insurance and basic group term life insurance at no cost to employees. Optional benefits included additional life, accidental death and dismemberment coverages for the employee and/or dependents.

## STATUTORY DEPOSITS

Pursuant to U.C.A. § 31A-4-105, the Company is required to maintain a statutory deposit equal to its minimum permanent surplus of $300,000. U.S. Treasury Notes with a par value of $300,000 and a market value of $414,375 were held by Zions First National Bank under a tri-party agreement with the Department.

The Company established two reinsurance trust accounts with Zions First National Bank pursuant to Reinsurance Trust Agreements with Legion Insurance Company and Advantage Workers Compensation Insurance Company. The trust accounts were established for the sole use and benefit of Legion and Advantage, subject to the terms and conditions of the agreements. The companies may make withdrawals at any time without notice to the Company. Bonds with a par value of $11,000,000 and a market value of $11,420,625 were held in the Legion Insurance Company trust account. A bond with a par value of $1,600,000 and a market value of $1,600,250 was held in the Advantage Workers Compensation Insurance Company trust account.

## INSURANCE PRODUCTS AND RELATED PRACTICES

### Policy Forms and Underwriting

Prior to 1996, the Company used its own policy contract and endorsement forms. Policies issued after January 31, 1996, adopted the National Council on Compensation Insurance ("NCCI") forms. To supplement the NCCI forms, the Company filed and used its own policy applications, schedules and endorsements when considered appropriate and necessary. As of December 31, 2000, the Company's risk retention was $2,000,000.

During the examination period, two basic policies were in force: continuous until cancelled policies and term policies. Continuous until cancelled polices were gradually phased out and as of the report date, the Company did not have any of these policies still outstanding. All policies currently issued are for a specified policy period with effective and expiration dates shown on the policy information page. Policy periods are generally one year unless a short-term policy is required for a specific reason. Estimated premiums for the policy period are based on estimated payroll with the final premium determined by audit after expiration of the policy.

U.C.A. § 31A-22-1001 obligates the Company to write all workers' compensation insurance for which an application is received. Consequently, underwriting was essentially limited to proper classification of employees, selection of a premium payment plan, and calculation of premiums. NCCI occupational codes were used to assign employee classifications.

The Company had three premium rate tiers, preferred, standard, and non-standard. Specific eligibility provisions applied to preferred and non-standard rates. All risks not qualifying for preferred or non-standard rates were written at standard rates.

Effective November 1, 1996, the Company filed a rate modification to the large risk alternative rating option described in the NCCI Retrospective Rating Plan Manual. This filing reduced the minimum premium eligibility for the large risk-rating plan from $1,000,000 to $100,000.

Premium size discounts applied to policies of more than $5,000 annual premium. These discounts were graduated up to 14.4 percent of standard premium. The Company also used the NCCI Schedule Rating Plan for policies that generated more than $10,000 in estimated premium.

The Company currently writes four association safety group programs. Association members that meet eligibility requirements receive a 5 percent premium credit and are eligible for association dividend programs that are based on loss experience of the association.

**Provider Contracts**

The Company had medical provider agreements with IHC Health Services, Inc., Milford Valley Memorial Hospital, and The University of Utah on behalf of the University Faculty Practice Organization and the University of Utah Hospitals and Clinics. Each of the contracts set discounted fees for medical services provided. The IHC Health Services, Inc. agreement allowed the Company to contract with specifically identified non-IHC facilities. It did not permit the Company to make agreements with any other health care providers in the service area. Notwithstanding this provision, the Company was allowed to contract with specialty providers such as chiropractors and others who were not IHC Health Services, Inc. providers.

**Territory and Plan of Operation**

U.C.A. 31A-33, created the Company to insure Utah employers against liability for compensation based on job-related accidental injuries and occupational diseases and to assure payment of this compensation to Utah employees who are entitled to it. In accordance with U.C.A. § 31A-33-103.5(2), the Company may only offer:

(1) workers' compensation insurance in Utah;
(2) workers' compensation insurance in a state other than Utah to the extent necessary to accomplish its purpose under U.C.A. § 31A-33-102(1)(b) and to provide workers' compensation or occupational disease insurance coverage to Utah employers and their employees engaged in interstate commerce; and
(3) workers' compensation products and services in Utah and other states.

The Company is only authorized to transact workers' compensation insurance within the State of Utah. U.C.A. § 31A-22-1001 requires the Company to write all workers' compensation insurance for which application is made to the Company. Under U.C.A. § 34A-2-203, each department, commission, board or other agency of the State of Utah is required to pay the insurance premium on its employees direct to the Company.

U.C.A. § 31A-33-103.5 permits the Company to form or acquire subsidiaries or enter into a joint enterprise. U.C.A. § 31A-33-103.5(3) permits subsidiaries to offer workers' compensation insurance coverage only in a state other than Utah and to insure certain employers against liability for compensation based on job-related accidental injuries and occupational diseases. In addition, subsidiaries are allowed to offer workers' compensation products and services in Utah and other states. During the examination period, the Company expanded its operations by acquiring an Indiana domiciled insurance subsidiary, a majority interest in a third party administrator, and forming a workers' compensation products and services company (Refer to **HISTORY** and **AFFILIATED COMPANIES**).

The Company maintained more than a 50 percent market share of all workers' compensation insurance written in the State of Utah. Its products were marketed through approximately 10 salaried employee/agents and approximately 30 independent insurance agencies. The marketing vice president supervised the employee/agents and was the point of contact between the Company and its independent agents. The Company's standard agency agreement established a commission rate, but allowed the negotiation of deviations from the specified rate.

**Advertising and Sales Material**

In general, the Company's advertising was not directly related to insurance policies. A review of advertising materials did not identify any material concerns. The following schedule compares advertising expense to direct written premiums:

| Year | Advertising Expense | Direct Premiums Written | % of Premium |
|---|---|---|---|
| 1997 | $1,698,560 | $113,820,844 | 1.49% |
| 1998 | 1,207,087 | 95,804,496 | 1.26% |
| 1999 | 1,944,326 | 94,770,700 | 2.05% |
| 2000 | 1,681,273 | 106,857,224 | 1.57% |

Approximately $950,000 of the year 2000 advertising expense was paid to the Company's advertising agent for television commercials and other media advertising. Other disbursements charged to advertising expenses included entertainment and receptions, $202,218, scholarships, $128,625, public relations, $116,980, charitable contributions, $79,125, Utah Jazz, $58,000, and seminars, $43,599.

**Treatment of Policyholders**

U.C.A. § 34A-2-801 provides procedures for adjudication and administrative action hearings within the Division of Adjudication, a division of the Labor Commission. However, in some instances policyholder complaints were filed with the Department. During the three-year examination period, twenty-seven general type complaints were filed with the Department. Eleven were filed in year 2000, nine in 1999, and seven in 1998. All of the complaints were closed. The small volume of complaints, relative to total policies issued and claims processed, indicates that the Company maintained some control over policyholder complaints throughout the examination period.

The Company's ratios for denied claims to reported claims were as follows:

| Year | Claims Filed | Claims Denied | Percent |
|---|---|---|---|
| 1997 | 30,562 | 899 | 2.9% |
| 1998 | 31,770 | 1,002 | 3.2% |
| 1999 | 32,463 | 1,027 | 3.2% |
| 2000 | 34,835 | 1,199 | 3.4% |

**Dividends to Policyholders**

U.C.A. § 31A-21-310 permits the Company to distribute surplus to policyholders. In accordance with this section, a dividend plan effective January 1, 1998, and a revised plan effective January 1, 1999, were filed with the Commissioner. The Company paid the following dividends:

| Year Paid | Earned Year | Dividend Paid | Earned Premiums | % of Premiums |
|---|---|---|---|---|
| 1997 | 1996 | $17,149,437 | $127,500,000 | 13.45% |
| 1998 | 1997 | 39,800,311 | 114,000,000 | 34.91% |
| 1999 | 1998 | 25,500,000 | 88,785,081 | 28.72% |
| 2000 | 1999 | 5,950,800 | 89,434,607 | 6.65% |
| | Total | $88,400,548 | $419,719,688 | 21.06% |

Subsequent to the examination date, the board of directors declared a 2001 policyholder dividend of $5.5 million for year 2000 policyholders. The dividend declaration was based on management's best estimate of the ultimate amount to be paid out under the Company's dividend plan. Management currently expects to pay out approximately $7.2 million for the year 2000 plan year. The expected dividend is about 6.3 percent of reported year 2000 earned premiums.

## REINSURANCE

**Assumed:**

The Company maintained an Aggregate Excess of Loss Reinsurance Agreement with Legion Insurance Company ("Legion") located in Philadelphia, Pennsylvania. Under the agreement Legion fronted for the Company on certain risks located outside of Utah. Under the arrangement, the Company assumed risks on Legion policies issued to employers with a majority of their employees hired or regularly employed in Utah, employers with a principal administrative office located in Utah, and subsidiaries or affiliates of these employers. Legion was also a ceding party, along with the Company, under excess of loss reinsurance agreements that provided coverage on the assumed business.

The Company assumed 90 percent of Legion's gross written premium and 100 percent of Legion's losses and loss adjustment expenses less 10 percent of Legion's gross written premium on reinsured policies. The Company indemnified Legion for the amount by which the aggregate of ultimate net loss in any account year exceeded 10 percent of gross written premiums.

Legion was allowed a ceding commission. The commission in effect from August 1, 2000, to August 1, 2001, was equal to 21.57 percent of gross written premium. The commission included an estimated percentage of taxes, licenses, fees, assessments, guaranty funds, assigned risk pool charges, commissions and countersignature fees. The agreement requires that estimated amounts ultimately be adjusted to actual amounts. Additionally, the Company had the burden of premium collection and the cost of claims settlement.

The Commonwealth Court of Pennsylvania issued an order on March 28, 2002, placing Legion into voluntary rehabilitation effective April 1, 2002. Pursuant to the order, the Insurance

Commissioner of the Commonwealth of Pennsylvania acting as the Rehabilitator took immediate possession of the property, business, and affairs of Legion and is authorized to take such action as the nature of the case and the interests of the policyholders, creditors, or public may require.

Effective May 1, 1999, the Company entered into a reinsurance agreement with its subsidiary, Advantage Workers Compensation Insurance Company ("Advantage"). The Company assumed 90 percent of Advantage's gross premiums and 100 percent of Advantage's losses and loss adjustment expenses less 10 percent of Advantage's gross premium.

Advantage was allowed a ceding commission equal to 25 percent of gross written premium. The commission included an estimated percentage for agents' commissions, taxes, licenses, fees, assessments, guaranty funds, and assigned risk pool charges. The agreement requires that estimated amounts ultimately be adjusted to actual amounts. Additionally, the Company assumed the responsibility for the costs of underwriting, collection of premium and servicing the policies.

**Ceded:**

The Company and Legion were ceding parties to an underlying and three per occurrence excess of loss reinsurance agreements and two per claimant excess of loss reinsurance agreements. American United Life Insurance Company and ReliaStar Life Insurance Company assumed respectively 40 percent and 60 percent of the coverages. The agreements were effective as of January 1, 2000. The business reinsured was any policies covering statutory Workers' Compensation Business in force, written or renewed by or on behalf of the Company or Legion. The parties retained the first $2,000,000 in losses. Reinsurance coverages are shown on the following page.

Reinsurance coverages on December 31, 2000, were as follows:

| Agreement | Coverage |
|---|---|
| Underlying Per Occurrence Excess of Loss | \$3,000,000 excess of \$2,000,000, each loss occurrence, subject to an aggregate limit of \$6,000,000. |
| First Per Occurrence Excess of Loss | \$5,000,000 excess of \$5,000,000, each loss occurrence, subject to an aggregate limit of \$10,000,000. |
| Second Per Occurrence Excess of Loss | \$50,000,000 excess of \$10,000,000, each loss occurrence, subject to an aggregate limit of \$100,000,000. |
| Third Per Occurrence Excess of Loss | \$50,000,000 excess of \$60,000,000, each loss occurrence, subject to an aggregate limit of \$100,000,000. |
| First Per Claimant Excess of Loss | \$3,000,000 excess of \$2,000,000, per claimant, subject to an annual aggregate limit of \$10,000,000. |
| Second Per Claimant Excess of Loss | \$5,000,000 excess of \$5,000,000, subject to an annual aggregate limit of \$10,000,000. |

Reinsurance cessions for prior periods consisted of similar coverages with retention limits ranging from \$500,000 in the 1970's to \$3,000,000 in the late 1980's and early 1990's. The Company carried no reinsurance coverages for the period of July 1, 1982, through April 30, 1988. From January 1998 through December 1999, the Company retained \$250,000.

## ACCOUNTS AND RECORDS

The Company's electronic data system is maintained on an IBM OS390 computer. Its policy administration system is an in-house developed proprietary program, which integrates its policy, claims, accounts payable and general ledger applications into one system. All major accounting records are maintained electronically. General ledgers, subsidiary ledgers and journals are not maintained in hard copy form. Trial balance sheets and summary reports are extracted from a database. Summaries of detail entries are not maintained at any intermediate level.

An examination trial balance, as of December 31, 2000, was prepared from the Company's electronic trial balance sheet. Account balances were traced to annual statement exhibits and schedules without exception. Individual account balances for the examination period were examined as deemed necessary. Accounts and records deficiencies or concerns included the following:

- A custodial agreement with Zions First National Bank executed in 1998 was not authorized by a resolution of the board of directors or by an authorized committee, as required by Utah

Administrative Code (U.A.C.) § R590-178-4(B). Subsequent to the examination, the investment committee approved the custodial agreement.

- As of the examination date, the custodial agreement with the Bank of New York was not in compliance with U.A.C. § R590-178-4. Prior to completion of this examination, the agreement was brought into compliance.

- Five bonds guaranteed by the full faith and credit of the U.S. Government were reported with a National Association of Insurance Commissioners ("NAIC") designation of 1PE. In accordance with annual statement instructions, bonds of this type should be reported with a 1 designation.

- SUB1 forms were not submitted to the NAIC Securities Valuation Office ("SVO") within 30 days of the acquisition or formation of the Company's non-insurance subsidiaries, as required by Part 8, Section 1, of the Purposes and Procedures Manual of the SVO.

- Common stock of each of the Company's subsidiaries was reported with NAIC Designation "A". A "Z" suffix was not appended to the designation indicating that the designation was not obtained from the SVO, as required by annual statement instructions. In addition, the securities were not submitted to the SVO for valuation within 120 days of the date that the securities were acquired, as required by the Purposes and Procedures Manual of the SVO.

- Imputed interest in the amount of $404,838 was included in the cost basis of investment real estate. The NAIC Accounting Practices and Procedures Manual for Fire and Casualty Insurance Companies permits only actual costs to be included.

- A repurchase agreement account balance was reported as cash rather than as short-term investments as required by the NAIC Accounting Practices and Procedures Manual. Therefore, it was not reported on annual statement Schedule DA, Part 1, as required by annual statement instructions.

- A non-admissible collateral loan in the amount of $3,689,671 was improperly reported as a negative non-ledger asset. It should have been reported, as an asset not admitted.

- As also noted in the prior examination, the Company did not follow the NAIC Accounting Practices and Procedures Manual requirement that account balances greater than 90 days overdue be non-admitted. Instead the Company reduced the balance of billed premiums collectable by an allowance for uncollectable accounts. The net amount was reported as a ledger asset. Annual statement instructions require that the gross amount be reported as an asset with the aggregate uncollectable amount reported as an asset not admitted.

- Two bonds and one short-term investment were improperly reported as "Aggregate write-ins for other than invested assets". The assets were held under a claim settlement agreement that requires monthly payments for the life of a claimant.

- Claim specific allocated loss adjustment expense (ALAE) payments were included in medical claims paid data provided to the consulting actuary. In return, the consulting actuary established a combined range of loss and ALAE, excluding non-specific ALAE. The Company allocated a portion of the combined reserve to ALAE. This procedure does not comply with annual statement instructions for reporting loss and loss adjustment expense liabilities.

- As also noted in the prior examination, certain uncollected premiums were offset against unearned premiums. In addition, an undocumented estimated liability was used to book to the Company's estimated premium budget. The net amount was reported as unearned premiums. This procedure does not comply with annual statement instructions.

- Losses incurred under a claim settlement agreement were improperly reported as "Aggregate write-ins for liabilities". The liability should be included in "Losses".

- U.C.A. § 31A-4-110 requires all insurers doing business in Utah to report, under U.C.A. § 67-4a-301, any property presumed abandoned under Title 67, Chapter 4a, Part 2. The Company did not submit a Report of Unclaimed Property during the examination period. Reports were filed on April 18, 1997, and March 29, 2002.

- As also noted in the last examination, the Company continued to follow a practice of including substantial bulk and IBNR reserves in annual statement Schedule P for years prior to the reporting year. The use of excess bulk reserves in Schedule P reduces the reliability of the development data contained therein.

- Schedule P annual statement instructions require the Company to report the actuarially determined reserves in Parts 1 and 2. Although year 2000 aggregate bulk and IBNR reserves reported were only $6.4 million less than the high point of the consulting actuary's indicated range, individual accident years varied significantly. For example, the reserve reported for incurred years prior to 1991 was $38.5 million. The actuary's high point estimate was $67.0 million, which is $28.5 million more than reported. The reserve reported for incurred year 1995 was $17.7 million. The actuary's high point estimate was $9.8 million, which is $7.9 million less than reported.

- Year 2000, Schedule P, ULAE aggregate reserves reported were approximately $.5 million greater than the consulting actuary's high estimate, but accident years varied materially. For example, year 2000 reported ULAE was $10.3 million. The actuary's high point estimate was $5.3 million.

## FINANCIAL STATEMENTS

The Company's financial condition as of December 31, 2000, and the results of its operations during the twelve months then ended, as determined by examination, are reported in the following financial statements:

Balance Sheet as of December 31, 2000
Underwriting and Investment Exhibit – Statement of Income
January 1, 2000 through December 31, 2000
Surplus – January 1, 1998 through December 31, 2000

The accompanying comments on financial statements are an integral part of these statements.

Workers Compensation Fund
Balance Sheet
As of December 31, 2000

**ADMITTED ASSETS**

| | Amount | Notes |
|---|---|---|
| Bonds | $536,179,424 | |
| Common stocks | 109,347,617 | (1) |
| Real estate: | | |
| Properties occupied by the Company | 7,242,498 | |
| Other properties | 22,182,979 | |
| Cash and short-term investments | 53,331,900 | |
| Other invested assets – Wasatch Venture Fund II, LLC | 0 | (2) |
| Premiums and agents' balances in course of collection | 3,053,359 | |
| Premiums, agents' balances and installments booked but deferred an not yet due | 1,254,754 | |
| Accrued retrospective premiums | 4,808,415 | |
| Electronic data processing equipment | 873,527 | |
| Interest, dividends and real estate income due and accrued | 11,123,739 | |
| Receivable from parent, subsidiaries and affiliates | 0 | (3) |
| Aggregate write-ins for other than invested assets: | | |
| Assets held for claim 89-15063 | 2,202,140 | |
| **Total assets** | 751,600,352 | |

**LIABILITIES, SURPLUS AND OTHER FUNDS**

| | |
|---|---|
| Losses | 395,381,340 |
| Loss adjustment expenses | 58,100,768 |
| Contingent commissions and other similar charges | 250,000 |
| Other expenses | 10,572,290 |
| Taxes, licenses and fees due or accrued, excluding federal income taxes | 3,243,553 |
| Unearned premiums | 24,296,781 |
| Policyholders dividends declared and unpaid | 1,224,471 |
| Amounts withheld or retained by company for account of others | 2,074,421 |
| Aggregate write-ins for liabilities: liability for claim 89-15063 | 1,987,380 |
| **Total liabilities** | 497,131,004 |
| Unassigned funds (surplus) | 254,469,348 |
| **Surplus as regards policyholders** | 254,469,348 |
| **Total liabilities, surplus and other funds** | $751,600,352 |

Workers Compensation Fund
Underwriting and Investment Exhibit
Statement of Income
January 1, 2000 through December 31, 2000

| | Amount |
|---|---|
| Underwriting income: | |
| Premiums earned | $ 114,000,000 |
| Deductions: | |
| Losses incurred | 87,232,569 |
| Loss expenses incurred | 18,770,106 |
| Other underwriting expenses incurred | 36,420,981 |
| Total underwriting deductions | 142,423,656 |
| Net underwriting gain or (loss) | (28,423,656) |
| Investment income: | |
| Net investment income earned | 39,136,125 |
| Net realized capital gains or (losses) | 9,689,133 |
| Net investment gain or (loss) | 48,825,258 |
| Other income: | |
| Net gain (loss) from agents' or premium balances charged off | (325,431) |
| Aggregate write-ins for miscellaneous income -- other income | 77,479 |
| Total other income | (247,952) |
| Net income before dividends to policyholders | 20,153,650 |
| Dividends to policyholders | 5,950,800 |
| Net income | $ 14,202,850 |

Workers Compensation Fund
Surplus
January 1, 1998 through December 31, 2000

| | 1998 | 1999 | Examination 2000 |
|---|---|---|---|
| Surplus as regards policyholders, December 31 previous year | $242,407,816 | $246,178,449 | $256,310,172 |
| Net income (loss) | (566,533) | 1,627,223 | 14,202,850 |
| Net unrealized capital gains (losses) | 4,360,996 | 9,174,186 | (14,809,752) |
| Change in non-admitted assets | (23,830) | (669,686) | (1,233,922) |
| Net change in capital and surplus for the year | 3,770,633 | 10,131,723 | (1,840,824) |
| Capital and surplus, December 31 current year | $246,178,449 | $256,310,172 | $254,469,348 |

## COMMENTS ON FINANCIAL STATEMENTS

**(1) <u>Common Stocks</u>** **<u>$ 109,347,617</u>**

In August of 1998, the Company acquired 100 percent of the common stock of Advantage Workers Compensation Insurance Company. U.C.A. 31A-17-401(3)(a)(vi) allowed the Company to initially value the subsidiary at cost. The amount in excess of the subsidiary's capital and surplus, $5,656,468, was required to be written off for regulatory purposes over a period specified by the Commissioner. Although a time period was not specified, the Company capitalized the excess amount and set an amortization period of ten years. The excess value remaining at December 31, 2000, was $4,289,488. Subsequent to the examination period, the Commissioner, by order, permitted the Company to write off the excess amount over a ten-year period beginning on August 4, 1998.

**(2) <u>Other invested assets – Wasatch Venture Fund II, LLC</u>** **<u>$ 0</u>**

An investment in the amount of $2,000,000 in Wasatch Venture Fund II, LLC, a limited liability company, was not admitted. The investment was not held in accordance with U.C.A. § 31A-18-105, as required by U.C.A. § 31A-17-201. Limited Liability Company is not a class of investment permitted under U.C.A. § 31A-18-105. Therefore, the investment may not be used in determining the financial condition of an insurer.

**(3) <u>Receivable from parent, subsidiaries and affiliates</u>** **<u>$ 0</u>**

A receivable in the amount of $256,789 was not admitted. In accordance with U.C.A. § 31A-17-201, receivables from parent, subsidiaries and affiliates are not admitted in the determination of the financial condition of insurers.

## SURPLUS

The Company's surplus was determined to be $2,256,789 less than reported. The following schedule identifies examination changes:

| Description | Annual Statement Dr (Cr) | Examination | Change in Surplus Inc (Dec) | Notes |
|---|---|---|---|---|
| Other invested assets: | | | | |
| Wasatch Venture Fund II, LLC | $2,000,000 | $0 | $ (2,000,000) | (2) |
| Receivable from parent, subsidiaries and affiliates | 256,789 | 0 | (256,789) | (3) |
| Total changes | | | (2,256,789) | |
| **Surplus per Company** | | | 256,726,137 | |
| **Surplus per examination** | | | $254,469,348 | |

U.C.A. § 31A-5-211 requires the Company to maintain permanent surplus in the amount of $300,000. In accordance with U.C.A. 31A-17, Part VI, the Company reported total adjusted capital in the amount of $256,726,137 and authorized control level Risk-Based Capital ("RBC") in the amount of $28,082,185. The examination determined total adjusted capital to be $254,469,348 and accepted the Company's calculation of its authorized control level RBC. Examination adjustments would not have a material effect on the authorized control level RBC calculation.

## SUMMARY

Items of significance or special interest contained in this report are summarized below:

(1) The previous examination, as of December 31, 1997, increased the Company's reported surplus by approximately $49 million. (**SCOPE OF EXAMINATION – Status of Adverse Findings, Material Changes in the Financial Statements, and Other Significant Regulatory Information Disclosed in the Previous Examination**)

(2) U.C.A. § 31A-33-102 created the Company as a nonprofit, quasi-public corporation. (**HISTORY – General**)

(3) Article 1, Section 1.1 of the bylaws states that "The principal office of the Corporation shall be within the State of Utah and shall be located in Salt Lake City, Salt Lake County." The Company is not in compliance with this requirement. The Company's principal office is located in Murray, Utah. (**HISTORY – General**)

(4) Ultimate control of the Company resides with its board of directors. (**HISTORY – Management**)

(5) An Employment Agreement entered into with the Company's President and Chief Executive Officer ("CEO") with an effective date of September 1, 2000, was not reported to the Commissioner within 30 days of approval by the board of directors, as required by U.C.A. § 31A-5-416(3). Nor was the agreement acknowledged in annual statement general interrogatory 9(d). (**HISTORY – Management**)

(6) A review of officers' and directors' conflict of interest questionnaires disclosed that two questionnaires were left blank other than the individual's name, signature and date. The questionnaire requests that the individual identify the nature of any relationships the individual or members of his or her immediate family may have with specific entities. Three directors and three officers listed various relationships. (**HISTORY – Conflict of Interest Procedure**)

(7) As also noted in the prior examination report, the Company did not maintain minutes of some board of directors' executive sessions. In addition, minutes of the Compensation, Benefits and Human Resources Committee have not been kept since its formation in May 1999. Annual statement general interrogatory 26 erroneously reported that the Company keeps a complete permanent record of the proceedings of its board of directors and all subordinate committees. (**HISTORY – Corporate Records**)

(8) The Commissioner was not notified immediately following the acquisition or formation of subsidiaries as required by U.C.A. 31A-5-218(5)(a). (**HISTORY – Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance**)

(9) The Company is the ultimate controlling member of an insurance holding company system. (**AFFILIATED COMPANIES**)

(10) The Company did not notify the Commissioner in writing of its intention to enter into several affiliated transactions at least 30 days prior to entering into the transactions as required by U.C.A. § 31A-16-106(1)(b)(iv). (**AFFILIATED COMPANIES – Management Agreements, Service Contracts and Cost-sharing Arrangements**)

(11) A "Revised Supplemental Executive Retirement Agreement" entered into with the Company's President and Chief Executive Officer ("CEO"), effective September 1, 2000, was not reported to the Commissioner within 30 days of approval by the board of directors, as required by U.C.A. § 31A-5-416(3). Nor was the agreement acknowledged in annual statement general interrogatory 9(d). (**PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS – Employee Retirement Plans**)

(12) The Company may only offer workers' compensation insurance in Utah, workers' compensation insurance in a state other than Utah under certain conditions, and workers' compensation products and services in Utah and other states. (**INSURANCE PRODUCTS AND RELATED PRACTICES – Territory and Plan of Operation**)

(13) U.C.A. § 31A-33-103.5(3) permits the Company's subsidiaries to offer workers' compensation insurance coverage only in a state other than Utah and to insure certain employers against liability for compensation based on job-related accidental injuries and

occupational diseases. (**INSURANCE PRODUCTS AND RELATED PRACTICES – Territory and Plan of Operation**)

(14) The Company maintained more than a 50 percent market share of all workers' compensation insurance written in the State of Utah. (**INSURANCE PRODUCTS AND RELATED PRACTICES – Territory and Plan of Operation**)

(15) U.C.A. § 31A-21-310 permits the Company to distribute surplus to policyholders. In accordance with this section, a dividend plan effective January 1, 1998, and a revised plan effective January 1, 1999, were filed with the Commissioner. (**INSURANCE PRODUCTS AND RELATED PRACTICES – Dividends to Policyholders**)

(16) The Company maintained an Aggregate Excess of Loss Reinsurance Agreement with Legion Insurance Company. Under the agreement, Legion fronted for the Company on certain risks located outside of Utah. (**REINSURANCE – Assumed**)

(17) The Commonwealth Court of Pennsylvania issued an order on March 28, 2002, placing Legion into voluntary rehabilitation effective April 1, 2002. (**REINSURANCE – Assumed**)

(18) Effective May 1, 1999, the Company entered into a reinsurance agreement with its subsidiary, Advantage Workers Compensation Insurance Company. (**REINSURANCE – Assumed**)

(19) The Company and Legion Insurance Company were ceding parties to an underlying and three per occurrence excess of loss reinsurance agreements and two per claimant excess of loss reinsurance agreements. (**REINSURANCE – Assumed**)

(20) Several accounts and records deficiencies or concerns were identified. (**ACCOUNTS AND RECORDS**)

(21) U.C.A. § 31A-5-211 requires the Company to maintain permanent surplus in the amount of $300,000. In accordance with U.C.A. 31A-17, Part VI, the Company reported total adjusted capital in the amount of $256,726,137 and authorized control level Risk-Based Capital ("RBC") in the amount of $28,082,185. The examination determined total adjusted capital to be $254,469,348 and accepted the Company's calculation of its authorized control level RBC. (**SURPLUS**)

## CONCLUSION

Assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Company are acknowledged. In addition to the undersigned, Colette Reddoor, AFE, Financial Examiner, and Donald R. Catmull, Financial Examiner participated in the examination. John Kay, CFE, CIE, Assistant Chief Examiner supervised the examination.

Respectfully submitted,

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C. Kay Anderson, CFE
Examiner-in-Charge, representing the
Utah Insurance Department